HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

St. Catharines-Niagara CMA

Canada Mortgage and Housing Corporation

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New Home Market

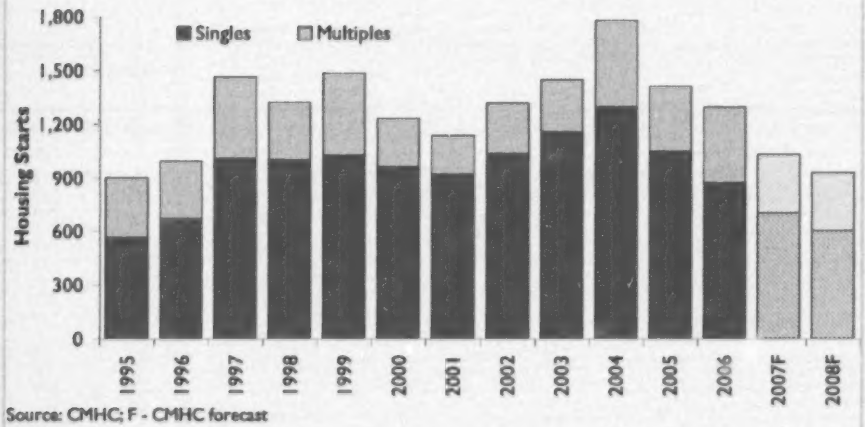
Starts Continue to Fall

Weaker demand for new single-detached homes will contribute to a slide in overall new home construction in 2008. About 930 homes will be started in 2008, down 10 per cent from 2007. Single-detached home starts are expected to fall fourteen per cent to 600 units while multiple-family home construction will remain stable at about the same level as in 2007.

Positive net in-migration and stable mortgage rates will continue to create a supportive environment for single-detached home demand. However, negative demand factors will have a greater impact and cause a decline in new single-detached home

Figure 1

Starts Continue to Retreat



Source: CMHC; F - CMHC forecast

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starts. Pricier new single-detached homes will lift mortgage carrying costs, making resale homes more attractive. Moreover, the higher number of homes put up for resale will increase home buyer choice in the existing home market and limit the spill-over of demand into the new home market. Although employment levels will remain high, flat job growth will impact buyer's ability to own a new single-detached home.

Niagara's New Home Price Index (NHPI), which measures the changes in prices of new homes of constant quality will rise 6.0 per cent in 2008, slightly slower than the 6.5 per cent expected in 2007. Prices are rising due to land constraints in the northern part of Niagara and increasing labour and material costs. This will enlarge the price gap between new single-detached homes and resale homes. The larger gap will encourage many buyers (especially the first-time buyers) to choose multiple-family homes, resulting in lower single-detached starts. Although single-detached home starts will fall, they will remain the product of choice for homebuyers. The majority of starts in this region will continue to be single-detached homes.

Multiple-family home construction will remain stable in 2008. Faced with the higher prices of single-detached homes, some first-time buyers will consider condominium apartments and townhomes as an alternative. Some empty-nesters will also turn to townhouse condominiums as an option for downsizing.

Resale Market

Resale Market Continues to be Close to the Record Level

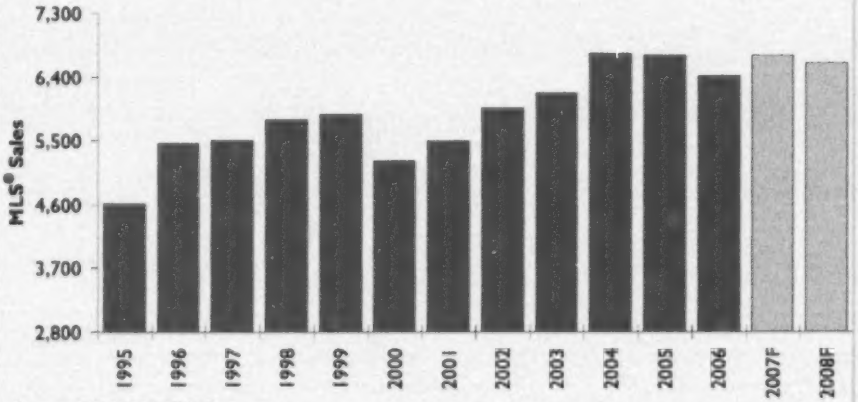
St. Catharines-Niagara's resales will remain high and close to the record set in 2004. About 6,600 units are expected to change hands in 2008, only 1.5 per cent lower than the peak in 2004. Average earnings in the service sector are relatively low, but they are increasing. Consequently, employees in this sector will continue to drive sales of homes in lower price ranges (e.g., around $200,000). In addition, the lower resale home prices in this region compared to those in Hamilton and Toronto, the large price differential between new homes and resale homes, and the ample choice of resale homes will attract migrants from Toronto and Hamilton to buy homes in the resale market.

The supply of newly-listed homes will continue to grow and reach a record. New listings are expected to hit 10,600, up 5 per cent from 2007. Rising prices are encouraging some households to list their homes so they can purchase one that meets their current needs more closely.

With the number of new listings growing faster than sales, the Sales-to-New Listings Ratio (SNLR) [1], a leading indicator of future price growth and measure of market conditions, will hover around the 55 per cent level. Consequently, prices are expected to grow at a slower pace in the St. Catharines-Niagara CMA. The average price of a resale home is forecast to increase by four percent to $211,400 in 2008, following 4.5 per cent growth in 2007.

Figure 2

Resale Market Continues to Be Strong in 2008



Source: CREA; (F) CMHC forecast

[1] A SNLR between 45 per cent and 55 per is associated with balanced market conditions. In a balanced market, prices tend to rise at a rate similar to inflation.

Economic Trends

Employment Growth Has Stalled

Employment is an important factor in housing demand. Following a period of strong job growth during the late 1990's, employment has stalled at the level reached in 2000. The St. Catharines–Niagara economy is closely linked to developments in the U.S. The difficulties in the U.S. sub-prime mortgage market coupled with the rising value of Canadian dollar against U.S. dollar will have a negative impact on the region. Expect almost no job growth in 2008.

The manufacturing sector continues to shed jobs due to the strong Canadian dollar. A drop in the market share of the Big Three vehicle manufacturers caused many suppliers of automotive components to leave this region and look for more competitive operating environments elsewhere. Although the strong Canadian dollar will allow the remaining manufacturers to become more efficient by importing more equipment at lower cost, many well-paid jobs may be eliminated in the process. In 2008, employment in the manufacturing sector will continue to deteriorate because Canadian products are becoming more expensive.

The tourism sector, one of the key sources of new employment for the past few years, has shown some signs of weakness. Fewer U.S. residents are visiting the region because of the high Canadian dollar and confusion over passport requirements among residents. The number of U.S. tourists crossing the border to Canada dropped from 14 million in 2000 to 10 million in 2006. In 2002 U.S. visitors accounted for half of the business for hotels in Niagara-on-the-Lake. Now, it has dropped to one third in 2006. Employment in the tourism industry is expected to slow further in 2008 as a result of the high Canadian dollar. Many Americans finance their holidays with credit lines and other short term financing options. Tighter credit conditions may cut into travel to Canada by U.S. residents.

On a positive note, small businesses and the speciality sector have been picking up some slack in the Niagara region's labour market. According to Community Benchmark's report on Niagara's economy, Niagara has gained more than 6000 small businesses since 1999. While most of them have fewer than 100 employees, these firms provide job opportunities in the field of skilled manufacturing, science and high technology. Many architects, engineers, surveyors and graphic designers have found employment with these small, but highly specialized businesses. These businesses tend to be less affected by the strong Canadian dollar and sub-prime meltdown since they are selling their expertise, rather than products for the mass market.

Income growth is also an important factor for housing demand. Although the manufacturing sector pays more than the service sector, average income was growing faster for those working in the service sector during the past few years. Professional services, recreation and public services accounts for much of the income growth in the service sector. With higher income growth, it becomes easier for consumers working in the service sector to qualify for mortgage financing.

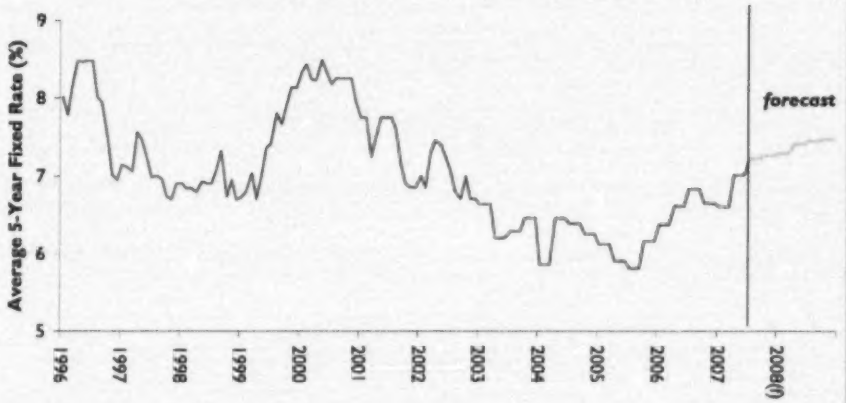
Population Growth Below Provincial Average

According to the 2006 census, population in the St. Catharines-Niagara CMA increased by 3.5 percent during the past five years, which is slower than the average of 6.6 per cent in Ontario. The slower growth is due to the fact that Niagara attracts less international migrants than other regions in Ontario, given the limited employment opportunities in the region. Also, some younger people (those in the 25-44 age group) moved out of the region to look for employment elsewhere. The segment of population that is growing is baby boomers. Many of them moved to this region from Toronto and Hamilton for its better quality of life and the more affordable housing prices. This trend will continue into 2008, but net migration is expected to slow to 800 compared to the 1,200 level (per year) during the early 2000s.

Mortgage Interest Rates

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

Figure 3



Source: Statistics Canada; CMHC forecast

Forecast Summary St. Catharines-Niagara CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	6,722	6,698	6,410	6,700	4.5	6,600	-1.5
MLS® New Listings	10,074	10,874	11,661	13,000	11.5	13,440	3.4
MLS® Average Price ($)	170,452	182,443	194,671	203,300	4.4	211,400	4.0
New Home Market							
Starts:							
Single-Detached	1,292	1,043	873	700	-19.8	600	-14.3
Multiples	489	369	421	330	-21.6	330	0.0
Starts - Total	1,781	1,412	1,294	1,030	-20.4	930	-9.7
New Housing Price Index (% chg.)	6.9	6.9	4.7	5.0	-	4.5	-
Rental Market							
October Vacancy Rate (%)	2.6	2.7	4.3	4.5	0.2	4.5	0.0
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	0.56	7.19	0.33
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	0.57	7.41	0.39
Annual Employment Level	187,400	191,900	190,200	190,000	0	190,000	0
Employment Growth (%)	-2.4	2.4	-0.9	0.0	-	0.0	-
Unemployment rate (%)	7.4	7.0	6.9	6.9	0.0	7.3	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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